

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7107

BILL NUMBER: SB 333

DATE PREPARED: Jan 2, 2002

BILL AMENDED:

SUBJECT: Dockside Gaming and Pull Tabs.

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Dockside Gaming:* The bill authorizes riverboats to conduct dockside gaming while still requiring the riverboats to be self-propelled and to have a valid certificate of inspection from the United States Coast Guard. The bill repeals the riverboat cruising requirement and other statutes related to mandatory cruising. The bill requires the Riverboat Admission Tax to be paid with respect to the number of persons on board the riverboat at the time a passenger count is recorded. The bill requires the passenger counts to be conducted each day one hour after the riverboat begins admitting patrons and then every two hours thereafter.

Pull Tab Sales at Horse Racing Facilities: The bill authorizes the Department of State Revenue to issue annual pull tab licenses to horse racetracks and satellite facilities under the Charity Gaming laws. The bill requires a horse racetrack or a satellite facility to donate at least 60% of its pull tab receipts to charity and prohibits a horse racetrack or a satellite facility from conducting any other charity gaming event.

Riverboat Ownership: The bill removes the prohibition on a riverboat owner from owning more than a 10% interest in another riverboat and permits a person to own up to a 100% interest in not more than two riverboat licenses. The bill also provides that a person may not have an ownership interest in more than two riverboat owner's licenses. It specifies that a person is considered to have an ownership interest in a riverboat owner's license if the interest is owned directly or indirectly by the person or by an entity controlled by the person.

Other Provisions: The bill requires riverboat admission tickets, if issued, to display the toll-free telephone number to obtain information on drug, alcohol, and gambling addictions.

Effective Date: July 1, 2002.

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the licensing of horse racetracks and horse racing satellite facilities for

pull tab sales. Since there is currently only one horse racetrack and three horse racing satellite facilities, these expenses presumably could be absorbed given the DOR's existing budget and resources. The bill would require the DOR to publish notice of an application by a horse racetrack or satellite facility for a pull tab license. In addition, if the DOR receives at least ten protest letters relating to the license application, it would have to hold a public hearing on the application. The DOR also would be required to hold a public hearing relating to a license renewal if the licensee has violated a law or rule in connection with the pull tab license; or has at least three complaints alleging a violation of a law or rule in connection with the pull tab license.

Explanation of State Revenues: *Dockside Gaming:* The bill provides that a riverboat owner may commence dockside gaming operations allowing for continuous boarding of riverboat patrons. The change to dockside gaming is expected to increase both wagering and admissions on riverboats that operate in such a manner. As a result, dockside gaming is expected to increase revenue from both the Riverboat Wagering Tax and the Riverboat Admission Tax. While the bill would still allow riverboats to cruise, the fiscal impacts outlined below assume that all riverboats would choose to commence dockside operations. Estimates pertaining to particular riverboats and communities will be made available upon request. Since the dockside authorization would be effective July 1, 2002, the impact of the bill would begin in FY 2003.

If all of the existing riverboats were to begin dockside gaming operations, revenue from the Riverboat Wagering Tax could potentially increase by an estimated \$111.0 M annually. The state share of the increase, as determined by statute, is equal to 75%, or approximately \$83.3 M. The state share of the Wagering Tax is deposited in the Lottery and Gaming Surplus Account within the Build Indiana Fund.

Likewise, if all existing riverboats begin dockside gaming operations, revenue from the Riverboat Admissions Tax could potentially increase by an estimated \$55.4 M to \$57.0 M annually. The following distributions, as determined by statute, are made to the state from each \$3 Admission Tax. These distributions are estimated to total \$16.6 M to \$17.1 M annually.

\$0.15 to the State Fair Commission (\$2.8 M - \$2.9 M);
\$0.10 to the Division of Mental Health (\$1.8 M - \$1.9 M); and
\$0.65 to the Indiana Horse Racing Commission (\$12.0 M - \$12.4 M).

Pull Tab Sales at Horse Racing Facilities: Authorizing sales of pull tab ***tickets*** or ***cards*** under the Charity Gaming laws at horse racing facilities could potentially impact revenue from the Charity Gaming License Fee, the Charity Gaming Excise Tax, and several existing pari-mutuel taxes. Revenue from the Charity Gaming License Fee could increase by as much as \$100,000 after the initial year of pull tab licensing. The impact on the other taxes is indeterminable.

The bill would permit horse racetracks and horse racing satellite facilities to obtain an annual license to conduct daily sales of pull tab ***tickets or cards*** under the existing Charity Gaming laws. The bill would prohibit these facilities from conducting any other gambling games allowed under the Charity Gaming laws. Under the bill, horse racetracks and satellite facilities selling pull tabs would have to donate to charitable or nonprofit organizations 60% of the gross sales receipts minus amounts paid in prizes. [Note: In FY 2000 and FY 2001, prize payouts by nonprofit organizations selling only pull tabs under the Charity Gaming laws represented about 84% of gross sales receipts. If the horse racing facilities conduct pull tab sales on a similar margin, a facility with annual sales receipts of \$40 M from pull tab tickets or cards (the approximate average wagering handle for the existing horse racing facilities in 2000) would have net receipts of approximately \$6.4 M. Under the bill, the facility would retain a maximum of 40% of the net receipts, or \$2.6 M.]

Charity Gaming Fees/Taxes: The bill could potentially increase revenue from the Charity Gaming License Fee by \$100 in the first year of licensing the existing horse racing facilities; and by as much as \$100,000 in subsequent years. The bill also could potentially increase revenue from the Charity Gaming Excise Tax imposed on distributors and manufacturers of gaming devices and materials like pull tabs. However, the precise impact is indeterminable. This assumes that the owner of Hoosier Park would obtain annual pull tab licenses for that facility as well as the existing satellite facilities in Indianapolis, Merrillville, and Ft. Wayne. This estimate does not account for potential operations at or connected to Indianapolis Downs racetrack which is due to open by the end of 2002. (The Horse Racing Commission has issued a track permit for Indianapolis Downs to be located in Shelby County. As a condition of receiving the permit, Indianapolis Downs must open by December 6, 2002.)

Current statute limits the initial fee for any charity gaming license to \$25 and limits the renewal fee to a maximum of \$25,000. The renewal fee schedule is specified in the table below. Based on the wagering handle at Hoosier Park and the three satellite facilities during 2000, it would appear that gross receipts from pull tab sales at these facilities could equal or exceed \$3,000,000 annually. During 2000, the handle at Hoosier Park for live and simulcast racing totaled \$37.3 M. The handle totaled \$16.9 M at the Ft. Wayne satellite facility, \$30.4 M at the Merrillville satellite facility, and \$67.5 M at the Indianapolis satellite facility.

The Charity Gaming Excise Tax is imposed on licensed distributors or manufacturers of gaming devices and materials sold to qualified organizations that hold charity gaming licenses. The tax is imposed at a rate of 10% of the wholesale price of gaming devices and materials sold to these organizations. Pull tab sales operations at horse race tracks and satellite facilities would impact sales of gaming devices and materials in Indiana and, thus, would impact revenue from the Excise Tax.

Revenue from Charity Gaming License Fees and the Charity Gaming Excise Tax is deposited in the Charity Gaming Enforcement Fund. Money remaining after the costs of administration is distributed to the Lottery and Gaming Surplus Account in the Build Indiana Fund.

Gross revenues of at least:	Gross revenues less than:	Fee
\$0	\$15,000	\$25
15,000	25,000	75
25,000	50,000	200
50,000	75,000	350
75,000	100,000	600
100,000	150,000	900
150,000	200,000	1,200
200,000	250,000	1,500
250,000	300,000	1,800
300,000	400,000	2,500
400,000	500,000	3,250
500,000	750,000	5,000
750,000	1,000,000	6,750
1,000,000	1,250,000	8,500
1,250,000	1,500,000	10,000
1,500,000	1,750,000	12,000
1,750,000	2,000,000	14,000
2,000,000	2,250,000	16,250
2,250,000	2,500,000	18,500
2,500,000	3,000,000	22,500
3,000,000		25,000

Existing Pari-Mutuel Taxes: Revenue from the \$0.20 Pari-mutuel Admissions Tax also could potentially increase if pull tab sales serve to increase paid attendance at horse racing facilities. The precise impact on Admission Tax revenue, however, is indeterminable. This tax is imposed only on paid admissions to a horse racetrack or satellite facility. Presently, admission is charged only at Hoosier Park for live racing and at the Merrillville satellite facility. Under current law, 50% of the Admission Tax revenue is distributed to the state General Fund. An increase in attendance at horse racing facilities selling pull tabs also could lead to increases in wagering on live and simulcast horse racing. This could potentially increase revenue to the state from the existing Pari-mutuel Wagering Tax and Pari-mutuel Satellite Facility Tax. The extent of this impact is currently indeterminable. The Wagering Tax is imposed at a rate of 2.5% of the total amount wagered on simulcasts at satellite facilities. The Satellite Facility Tax is imposed at a rate of 0.5% of the total amount wagered. The first \$150,000 of revenue from the Pari-mutuel Wagering Tax is distributed to the Veterinary School Research Account, and the remainder of the revenue goes to the Lottery and Gaming Surplus Account within the Build Indiana Fund. Revenue from the Pari-mutuel Satellite Facility Tax is distributed in equal shares to the Livestock Industry Promotion and Development Fund and to the State Fair Commission.

Background - Dockside Gaming: The estimated impact of dockside gaming in Indiana is based on the observed impact of dockside gaming in Illinois. Dockside gaming with continuous boarding of riverboat patrons began on Illinois riverboats as of June 26, 1999. Monthly totals for adjusted gross receipts and admissions were analyzed for a period of 67 months beginning with January 1996 and concluding with August 2001. The analysis controlled for the underlying monthly trend in both variables, for changes in the number and size of riverboat casinos during the period observed, for general economic conditions, and for seasonal differences. The results of this analysis indicate that during the months since dockside gaming began (July 1999 to August 2001) in Illinois, adjusted gross receipts have on average been about 30% higher than during the months prior to dockside gaming (January 1996 to June 1999). Likewise, the analysis indicated that riverboat admissions have on average been about 45% higher during the months since dockside gaming began.

The Wagering Tax impact is derived using the State Budget Agency's FY 2003 forecast as of January 22, 2001, for total Wagering Tax revenue equal to \$370.16 M. The Admission Tax impact is based on an FY 2003 estimate derived using total riverboat admissions during the 12-month period from November 2000 to October 2001 (40.4 M), and assuming growth rates ranging from 1.1% to 3% annually. These growth rates are based on recent trends in admissions relative to casino space and in overall riverboat admissions. Thus, FY 2003 riverboat admissions are estimated to total approximately 41.1 M to 42.2 M. Total admissions are used to derive these estimates as the bill creates a system of counting passengers every two hours that would tend to replicate the existing system of counting riverboat admissions. Under the existing system, admissions are the sum of a turnstile count and a multiple excursion count. The turnstile count is the number of persons entering the riverboat, and the multiple excursion count is the number of persons remaining on the riverboat for an additional excursion (generally two hours in length).

It is important to note that the estimates assume the conditions that have existed in Illinois since dockside gaming commenced will be replicated in Indiana, if and when dockside gaming commences. This assumption may be problematic in particular since the competitive environment for Indiana riverboats may not be similar to that which has existed for Illinois riverboats. At the time dockside gaming began in Illinois, the primary competitors of Illinois riverboats were riverboats located in: (1) Indiana, where dockside gaming is not permitted; (2) Missouri, where continuous boarding of riverboat passengers was at the time not permitted and where a \$500 per excursion loss limit was in place; and (3) Iowa, where dockside gaming on riverboats was only allowed during the late fall and winter months. If dockside gaming were to be implemented in Indiana, the impact on riverboat wagering and admissions may not reach the level achieved in Illinois since Indiana riverboats would be competing, to a great extent, with riverboats in Illinois that already conduct dockside gaming. The presence of land-based casinos operating in Detroit, Michigan, also may serve to dampen the impact of a change to dockside gaming in Indiana. As a result, the estimates based on the Illinois experience may overestimate the impact that dockside gaming will ultimately have on the Riverboat Admission Tax and the Riverboat Wagering Tax in Indiana.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Dockside Gaming:* Under current statute, 25% of Wagering Tax revenue is distributed to local units. As a result of dockside gaming, the Riverboat Wagering Tax to local units could potentially increase by an estimated \$27.8 M annually (25% of the total impact estimated to equal \$111.0 M). The distribution of the local share of the Wagering Tax depends upon the location of the riverboat from which the tax was collected. For riverboats docked in the largest city in a county that is contiguous either to Lake Michigan or the Ohio River, the local share of Wagering Tax revenue is distributed to the city designated as the home dock. For riverboats that are not docked in the largest city in a county that is

contiguous either to Lake Michigan or the Ohio River, the local share of Wagering Tax revenue is distributed to the county in which the riverboat is docked.

If all existing riverboats commence dockside gaming operations, revenue to local units from the Riverboat Admission Tax could potentially increase by an estimated \$38.8 M to \$39.9 M. The local share of each \$3 Admission Tax, as determined by statute, depends on the location of the riverboat from which the fee is collected. For riverboats located in counties contiguous to either Lake Michigan or the Ohio River, the following local distributions are made from each \$3 tax:

\$1.00 to the city in which the riverboat is docked;*

\$1.00 to the county in which the riverboat is docked; and

\$0.10 to the county convention and visitor bureau or promotion fund.

*In counties along the Ohio River in which the riverboat is not docked in the largest city in the county, this \$1.00 is also distributed to the county.

Pull Tab Sales at Horse Racing Facilities: If attendance at Hoosier Park live racing and the Merrillville satellite facility increases due to sales of pull tab *tickets* or *cards*, revenue to local units from the \$0.20 Pari-mutuel Admissions Tax could increase. The extent of this impact is indeterminable. Under current statute, 50% of admission tax revenue is distributed in equal shares to the city and county where the horse racing facility is located.

State Agencies Affected: Department of State Revenue, Indiana Gaming Commission, Indiana Horse Racing Commission, Division of Mental Health, Department of Natural Resources.

Local Agencies Affected: Local units receiving revenue from the Riverboat Wagering Tax, the Riverboat Admission Tax, or the Pari-mutuel Admissions Tax.

Information Sources: Indiana Gaming Commission, *2000 Annual Report to the Governor*, February 28, 2001. Indiana Gaming Commission, *Monthly Summary of Wagering and Admission Tax*, Various Months. Illinois Gaming Board, *Monthly Riverboat Revenue Reports* (Jan. 1996 to Aug. 2001); Illinois Gaming Board, *1999 Annual Report*; Illinois Economic and Fiscal Commission, *Wagering in Illinois: 2000 Update*, September 2000; State Budget Agency, *Lottery and Gaming Revenue Forecast*, January 22, 2001; Bob Lain, State Budget Agency, (317) 232-5610; Indiana Horse Racing Commission, *2000 Annual Report to the Governor*, May 1, 2001; Department of State Revenue, *FY 2000 & FY 2001 Charity Gaming Annual Report*. *2000 Annual Report*, Indiana Horse Racing Commission, May 1, 2001; *Indiana Handbook of Taxes and Appropriations, FY 2001*.